Centre for Aid
& Public
Expenditure

The 2013 CAPE conference:

budgeting in the real world

Conference report

Acknowledgements

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Where the reports of each session use speaker and participant quotes, these are sometimes paraphrased from the exact words spoken in order to make the meaning clearer.

Online resources:
The Framing paper sets out the terms of the debate.
Video recording, keynote speech, transcripts and all the presentations from the conference

Erratum:
On 12 March 2014 paragraphs 3 and 4 of page 9 were amended to correct a factual inaccuracy.

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Abbreviations

ANU	Australian National University
AusAid	Australian Agency for International Development
CABRI	Collaborative African Budget Reform Initiative
CAPE	Centre for Aid and Public Administration
CPIA	Country Policy and Institutional Assessment
JICA	Japan International Cooperation Agency
IFI	International Financial Institution
IMF	International Monetary Fund
IT	Information Technology
MTEF	Medium-term Expenditure Framework
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PBB	Priorities and Performance-based Budgeting
SEE	South-eastern Europe
US	United States

Conference overview: budgeting in the real world

This report summarises the key points, main areas of discussion and resulting conclusions from the 2013 Centre for Aid and Public Expenditure (CAPE) Conference, held on 13-14 November 2013 at the offices of the Overseas Development Institute (ODI) in London. The topic of the conference was 'budgeting in the real world', with a focus on the real-life issues facing budget managers, and those who wish to support them, as they develop, execute and report on national expenditure plans. The intention was to move beyond discussions of 'best practice' and 'ideal types' to explore the operation of national budgets on the ground. This entailed acknowledgement that national budgeting is typically 'messier' and more political than is usually assumed, and certainly more so than is presented in some public financial management (PFM) core texts. In taking this approach, the conference aimed to incorporate a strong sense of realism as to what might be possible for reformers to achieve, given particular sets of institutional capabilities and political circumstances.

The conference framing paper (Krause, 2013a) set out many of the key issues for discussion, with budgeting acknowledged as the foundation of everything that really matters in the public sector. The paying of public sector salaries, the construction of new infrastructure and decisions as whether to purchase grain or guns are closely linked to questions of 'Can we afford it?', 'Who should pay for it?' and 'Do we have the systems to execute this payment?' An effective PFM system provides answers to overnment deliver change in the budget process? And what, if anything, can external actors do to support them?

Four main questions

1) *The practice of budgeting*. How should we conceptualise the drivers of the form and functionality of budget systems? This considers perspectives from academia as well as actual experience from different regions of the world.

2) *The role of capable ministries of finance*. How can we better understand finance ministries as actors in their own right in the PFM reform process? What makes some more capable than others, and how can they be supported to become more capable?

3) *Reforming the budget process*. How can reformers within the government deliver change in the budget process? And what, if anything, can external actors do to support them?

4) *Linking budgeting and PFM to development outcomes*. Do PFM reforms support only macroeconomic stability and fiscal discipline? Or does successful delivery of PFM reforms have a wider impact on other key development outcomes; if so, how is this achieved?

An emerging consensus?

The discussions at the conference were wide-ranging, and covered a great many topics related to budgeting in the real world. The aim was not to produce a formal set of agreed 'conclusions' – indeed, participants were encouraged to debate, argue and disagree. Nevertheless, particular points and issues did receive widespread support and agreement from speakers and participants – although even on these issues there were often dissenting voices.

The best way to approach PFM reforms

A consensus on the 'new best practice' might be said to include the following points. PFM reforms need to be country-owned, government-led and sensitive to political economy constraints. They also need to avoid simply transferring 'blueprints' from one environment to another. Meanwhile, as all reform is 'political' to a degree, careful consideration of the incentive effects of PFM reforms is necessary. Start with 'basics first', then moving to the more complex; some sophisticated reforms may not be appropriate for years to come.

However, who would really argue the opposite of the points above? This 'soft consensus' has been around for a long time – and unfortunately does not provide much practical guidance on what donors or reforming governments should actually *do* in a country.

The role of donors

Donors often fail to operate according to the above approach and continue to insist on PFM reform plans that are not government-owned, import inappropriate reforms based on experiences in other contexts and/or ignore the political realities of where they work. Meanwhile, even if major donor institutions have the right policies at central level, country implementation plans often ignore these. Donor country offices may also have weak incentives to follow a more informed approach to PFM reform.

Moreover, donors often give contradictory and confusing advice, and can overwhelm the limited capacity of senior technocrats. To reduce this, donors could consider a 'code of practice' on PFM reform, and make greater efforts to harmonise and coordinate on the issue. However, as donor incoherence is never likely to go away, perhaps work could focus instead on making the *market for advice* more effective and transparent. In reality, it is the role of governments to coordinate donors according to their own plans – donors shouldn't really be expected to do this themselves.

How are reforms delivered in practice?

Real reforms involve changes in 'functional capability', not just in 'form'; successful reforms involve breaking down difficult issues into a series of manageable problems that can be tackled using the capacity available. There may be a limited role for external advice in this. Reform success trajectories are not linear, and may involve starts and stops. Indices and measures of PFM reform commonly used by donors (e.g. Public Expenditure and Financial Accountability, or PEFA, assessments) need to be better at measuring this functional capability, rather than just form. Incrementalism is the order of the day: change happens at the margins, and 'fundamental' reforms are unlikely to achieve much. Advanced budget reforms (e.g. Medium-term Expenditure Frameworks, or MTEFs, and Performance-based Budgeting, or PBB) are not likely to succeed in many low-income countries, and in fact weren't necessary for today's developed countries during their period of development.

Prospects for reform of the budget process and for ministries of finance cannot, however, be separated from the larger issues of the political settlement and elite power. Finance ministers, finance ministries and senior officials operate in these realities, and all reform will therefore have to operate within these binding constraints. Similarly, considering PFM reform separately from wider workforce and public administration reform is short-sighted. Without changes to the wider operation and management of public sector institutions, reforms in the narrow 'PFM space' will not work. In particular, many reforms might work in the 'island of excellence' in the ministry of finance but make little headway in the rest of the public sector. Furthermore, focusing simply on 'marginal' reforms undermines the possibilities more challenging reform plans present, and risks entrenching poor practice.

Day 1: 13 November 2013

Keynote session

Speaker
Antoinette Sayeh, Director, Africa Department, International Monetary Fund
Chair
Kevin Watkins, Executive Director, Overseas Development Institute

In introducing Antoinette Sayeh, **Kevin Watkins** noted the importance of PFM work for ODI, seeing it as lying at the heart of the contract between citizens and government. If this contract goes wrong, a large gap will open up between the formal budget process and the reality on the ground. The international community increasingly recognises that 'PFM matters', and wants to engage with the issue. However, the pathways to improvement are not straightforward: experiences from other countries and contexts cannot simply be transferred across borders. A country's institutional development has to reflect that country's own institutional and political setting

Keynote speech

Antoinette Sayeh's speech (Sayeh 2013) noted that, from the perspective of the International Monetary Fund (IMF), good governance means good performance at all stages of the budget process. Budgets can be only spent once, so formulating them right is crucial. However, the devil is in the detail. Specifically, three characteristics of PFM systems stand out from recent research done by Matt Andrews. First, budgets are often better prepared than they are executed (as shown in PEFA scores). Second, there usually exists a clear implementation gap between PFM and budget laws that are passed and those that are actually implemented. Third, consolidation of responsibilities leads to better results. Getting the basics right – such as ensuring reliable forecasts of key revenue and expenditure trends – is more important than delivering 'cutting-edge' PFM reforms.

There is no reason to assume budgetary policy challenges are something only poorer countries experience.

> *'Problems with budget processes don't occur only in low-income countries. For example, the recent budget crisis in the US brought poor budgetary practices into the international headlines. And Europe's monetary union, without strong fiscal rules and procedures, including on reliable data provision, has proven very vulnerable.'*

The reasons for these weaknesses will vary between countries, but four factors tend to play an underlying role. First, political economy constraints are an obstacle to better budget policy, and a poor governance environment does not easily allow for effective budgeting. Second, capacity constraints can be severe, with often-significant shortages of skilled staff (e.g. IT staff, accountants and auditors), and a tendency for the best personnel to leave for the private sector; their replacement by international consultants can further weaken incentives for local staff. Third, history and culture can have a significant impact on budgeting processes. For example, in Liberia the lawlessness of the conflict period has made it difficult to re-establish respect for procedures and rules. Finally, donors (including the IMF) have a tendency to focus on how budgeting systems *should* look, and as a result on issues like changing laws and rules – which is relatively easy – rather changing institutions – which is much more challenging.

> *'Too often, our expert advisors have strong ideas about what a "good" budget should look like. They then advise on how to change laws and budget manuals to bring them in line with "best practices". Such legal changes can be made rather quickly, which allows us to report progress on PFM reform to our boards.'*

The key message is that, to be successful in 'budgeting in the real world', reforms have to be well tailored to the country, as well as owned by the government. To get this right, it is necessary to take into account country institutions and to adapt best-fit solutions. Overall, the political economy of the budget process needs to be evaluated and integrated into the reform programme. Meanwhile, in undertaking budgetary reform, there can be great power in transparency, even in very difficult environments. For example, in Nigeria the simple move of publishing financial transfers from federal to state governments had a positive impact on citizen demand for accountability in the use of funds.

There is also a need to ensure correct sequencing of reforms, with a focus on getting the basics right and then moving towards using advanced tools and techniques. At the same time, the attention of reformers needs to be on changing practice and behaviour (*de facto* PFM systems), not simply amending legal or procedural frameworks (*de jure* PFM systems). Furthermore, there needs to be a sense of realism about the pace of reforms: countries with some of the world's best PFM systems took decades to achieve these, and pushing changes too fast can actually undermine the overall reform effort.

> *'Developing and implementing the practices that are considered PFM's "gold standard" have taken decades in advanced economies like Singapore and New Zealand. These best practices of high achievers in the world of PFM provide useful long-term objectives for ambitious low-income country reformers, but most low-income countries should focus on more down-to earth objectives.'*

In looking ahead, two major trends within Africa will have significant impacts on PFM systems. First, the discovery and exploitation of substantial oil and mineral reserves in many countries will raise challenges. There is a risk of the well-known 'resource curse' if weak PFM systems cannot manage a sudden windfall, resulting in unsustainably high domestic spending and a loss of budgetary control. There is an urgent need to ensure that countries expecting such a windfall upgrade their PFM systems in anticipation of these challenges. Second, the continued trend towards decentralisation raises both the prospects of better service delivery but also challenges in ensuring the necessary PFM systems can be extended to, and established in, low-capacity environments.

> *'To sum up, good PFM lies at the heart of development. Resources are scarce, which puts a premium on using them well. Accountability and good governance are critical, since PFM is by definition about public money. The primary responsibility therefore lies with governments to ensure accountability to their citizens. But the international community also has a role to play by providing appropriate assistance that strengthens the weakest links first.'*

Discussion

Questions were raised as to whether countries should abandon efforts like accrual accounting and/or MTEFs in a drive to 'stick to the basics'. In response Ms Sayeh said countries could usefully focus on one or two key deficiencies in their systems, rather than developing plans to tackle everything. In referring to sequencing and the current Kenyan experience of decentralisation, Ms Sayeh said that low capacity within the Kenyan public service meant the pace of decentralisation needed to be scaled accordingly, but that the Kenyan government was aware of this risk

Another participant raised the issue of motivating young and talented people to remain working in PFM. Ms Sayeh agreed that incentivising talented, up-and-coming PFM managers was a real issue, and that they needed to have a sense that they were being listened to, and that they could influence the reforms being proposed. Empowering enthusiastic and talented reformers with real authority can be sufficient to motivate their engagement, even in a context of low salaries. However, governments must also work on making a career in the civil service sufficiently attractive in the long-term.

A question was raised about whether the boards of the IMF and the World Bank really did share this 'consensus' regarding country-owned, long-term reform focused on 'getting the basics right'. To some, this might seem to be simply lowering ambition. Ms Sayeh agreed, noting that she had seen PFM reform programmes for challenging environments (such as in Mali) that looked as though there were designed for more stable countries (such as Tanzania). She said that, with regard to the international financial institutions (IFIs), in many cases the right policies do exist, and the boards of both institutions have indeed put the correct instruments in place. However, in some cases, directors and country staff are just not using them. There is a challenge, therefore, for senior managers within these institutions in terms of pushing their staff to adopt this way of thinking.

Session 1
The practice of budgeting: what drives the form and functionality of budget systems?

Chair

Marta Foresti, Head of the Politics and Governance Programme, Overseas Development Institute

Speakers

Neil Cole, Executive Secretary, Collaborative African Budget Reform Initiative

Carlos Scartascini, Principle Research Economist, Inter-American Development Bank

Jana Repensek, Deputy Director, Center for Excellence in Finance

Discussant

Joachim Wehner, Senior Lecturer, London School of Economics

Presentations

In her opening discussion, **Marta Foresti** noted that the questions in this session went to the heart of the debate about PFM and the main issues laid out in the framing paper. What really drives budget processes, and how do these drivers lead to differences between form and function?

In his presentation, **Neil Cole** (Cole 2013) said that, at the Third Collaborative African Budget Reform Initiative (CABRI) Conference, an international advisor working in Ghana noted that the country's budget process was a façade, given the extent of leakages in the system. The system is 'closed', with weak parliamentary oversight, large discretionary spending and a very weak link to actual budget policy. The Ghanaian delegation at the CABRI Conference did not disagree; in fact, they considered this an accurate statement of the current situation.

Building on this observation, Mr Cole agreed with Aaron Wildavsky's statement that *'most practical budgets take place in a twilight zone between politics and efficiency'* (Wildavsky 1961). In developing countries, the two main constraining factors are *scarcity* and *uncertainty* – scarcity because the budget process forces public policy choice; and uncertainty since trade-offs will affect stakeholders differently (and often negatively). Limited transparency and accountability can result in budgets that are little more than wish-lists of political promises. He also noted that, in recent years, two reforms had been promoted as being able to answer the twin challenges of uncertainty and scarcity – MTEFs and PBB. The majority of African countries have now introduced MTEFs, but to date only three have made substantive improvements in managing scarcity and uncertainty as a result. Similarly, only two African countries have made significant progress in PBB, although a majority have either started looking at this or are committed to undertaking reforms in the future. However, using the Organisation for Economic Co-operation and Development (OECD) categorisation of the right preconditions for PBB, it would seem that the majority of African countries cannot meet the basic requirements for successful introduction of such reforms.

Mr Cole agreed, therefore, with Antoinette Sayeh – *'ambitious reforms have tended to overlook Allen Schick's advice of getting the basics of budgeting right'*. Countries should master basic budget management before moving to something more complex such as PBB, which requires a number of preconditions (such as parliamentary support and effective macro-fiscal projections).

Finally, Mr Cole presented a series of insights into '*the missing links*' that will increase the chances of PFM reform success. These 'soft', non-technical PFM issues – such as changes in mind-set and responding to feedback from line ministries and other bottom-up sources of information – will greatly increase the chance of success. Confining reforms to closed groups in the central ministry of finance reduces the chance of successful reform; building a wide consensus among many different actors on the importance of PFM reform ambitions will be more effective. *'Civil servants must also be given more space to innovate and make mistakes so they can adapt and learn from that experience.'*

In the second presentation, **Carlos Scartascini** outlined his three main messages (Scartascini 2013). First, the budget process is an intrinsic part of the wider policymaking process, and cannot be studied in isolation. To emphasise this, Mr Scartascini pointed to the impact that changes to US campaign finance rules had had on the broader US political system, and noted that this broader political system now significantly affects the budget process. Second, government capabilities clearly matter for delivering PFM reform – but, third, this is endogenous to the political process and outsiders cannot easily affect it. As a result, reformers need to invest in long-term incentive-compatible areas that will motivate existing capacity to deliver results.

Regarding the first message, Mr Scartascini emphasised the need to see the budget process as involving a range of political actors, including legislators, line ministries and central government agencies – not simply the ministry of finance. PFM reforms need to be sensitive to how these actors work, and to be aware of their interests in budgetary reform. He gave the example of Argentina where – despite the introduction of a fiscal insolvency law – the executive continues to breach the fiscal ceiling. Clearly, the law is not in line with the wider political equilibrium and is therefore not widely respected by key budgetary institutions. As a result, 'solutions to budget challenges are also political, and not just technical'. He gave another example of regular over-estimation of the revenues financing the national budget. This can be seen through a political lens as a means of providing justification for higher discretionary expenditure that enables the building of political coalitions.

Mr Scartascini noted a distinction between developed and developing countries with regard to public spending decision making. In developed countries, negotiations on spending allocations are carried out prior to actual execution. In developing countries, they occur informally *during* budget execution. '*Therefore, in most cases, approved budgets are very different to executed budgets – the budget process is a living system.'* This system of allocation through execution should be of great interest to budgetary and PFM oversight institutions. However, despite long-term capacity building of such institutions in Latin America, they remain relatively weak in terms of holding the executive to account.

Regarding his message that government capabilities matter in the budget process, Mr Scartascini said that more capable governments and institutions delivered better human development results through better policymaking and budget processes. *'However, there is no magic bullet in strengthening weak institutions, and it cannot be externally imposed.'* Capacity is also linked to politics. Mr Scartascini noted the emergence of relatively powerful congressional committees in the US, and linked this to the political desire of both main parties to be able to take on a powerful role when they are not represented in the White House.

Mr Scartascini concluded with some recommendations on what role external actors, including donors, could play. He suggested that they consider the budget from a general equilibrium perspective, in that reforms cannot be seen as operating outside the rest of political decision making. Second, and related, reforms have a better chance of succeeding where they are compatible with local incentives. Finally, reformers should act as enforcement for inter-temporal coordination, so that reforms can continue even when governments and parties in power change.

In her presentation, **Jana Repansek** (Repansek 2013) divided her points into three sections: the institutional challenges in South-eastern Europe (SEE); evidence from a number of country case studies; and the necessity to go beyond PFM in institutional development.

Ms Repansek noted that capacity in SEE varied among institutions. Macroeconomic institutions – for example central banks – have better capacity, followed by ministries of finance, but line ministries often have weaker capacity. In her view, the solution to improving capacity in SEE is partly technical, but 'softer' issues must also be considered, for instance straightforward inter-institutional coordination in order to allow for the development of comprehensive fiscal policy.

Building on this idea, Ms Repansek set out a number of areas that are not strictly 'PFM issues' that need to be addressed if reform is going to take place. In essence, she argued, *'PFM reformers need to develop soft skills as well as technical skills'* if they are to be successful. These soft skills include policy coordination, leadership and negotiation. She agreed with Neil Cole's view that culture – particularly management culture – is an important factor in determining a PFM reform programme. In summary, she argued, *'we need to move away from a narrowly defined concept of PFM'*.

In his discussion of the presentations, **Joachim Wehner** observed two points that had emerged. First, capacity was a constant theme, with a particular focus on the importance of human resources rather than technical systems. There remained a key question – and challenge – in how to get capable individuals to run institutions. *'Are we focusing too much on PFM systems and not enough on people?'* Second, he noted the movement towards 'getting the basics right' first, and moving away from implementing reforms based on the blueprints of others. *'You don't need performance-based budgeting to ensure nurses and teachers are paid on time.'*

Discussion

One participant asked whether these discussions were missing a focus on outcomes and beneficiaries: a common mistake in reforms in developing countries lies in having large programmes but with a limited focus on outcomes for beneficiaries. **Carlos Scartascini** responded, noting that, in some countries, implementation of reforms was indeed motivated by a desire to 'signal' progress against best practice indicators. **Jana Repansek** agreed that some countries had too many reform programmes, and more should be done to determine what would be of most use to beneficiaries.

Edward Hedger, Head of CAPE, asked whether we had consensus on key issues. Does the PFM community now agree that externally imposed reforms like MTEFs and PBBs are usually misguided? What supporters of reform do when 'intention to reform' is merely a mechanism to signal progress against indicators, and demand for change is not genuine? He asked if Neil Cole's conception of 'preconditions' for advanced PFM reforms meant no African country could realistically hope to meet them.

Neil Cole said that his preconditions were simply a guide countries should use themselves in deciding whether to introduce these kind of reforms. He emphasised that reforms should be implemented to solve specific problems, not simply because they were a well-recognised blueprint others had already followed. **Joachim Wehner** cautioned against dismissing indicators as mere 'signalling', noting the instance of Sweden, where officials had been effective in using internationally comparative indicator sets to motivate and deliver needed reforms in their budget process. Another participant asked whether our current indicator toolkit – most notably the PEFA assessment – was too focused on form (official rules) and not functions (actual capability).

In the concluding remarks, **Carlos Scartascini** noted that external actors had a role to play, but that domestic external actors like parliaments and oversight institutions had not performed particularly well.

Jana Repansek emphasised again the importance of getting human resource reforms and wider public administration effectiveness in place alongside technical PFM reforms. **Neil Cole** concluded by asking whether *'technical assistance needs to be less overwhelming to give countries the space to better understand reforms and develop their own capacities*'.

Session 2
A case in point? The experience of Mozambique

Chair
Andrew Lawson, Director, Fiscus Ltd
Speaker
Luisa Diogo, Former Prime Minister and Minister of Finance, Mozambique
Discussant
Renaud Seligmann, Sector Manager, Financial Management, West and Central Africa, World Bank

Presentations
Andrew Lawson introduced the session. He noted that the conference was fortunate to be able to draw on the breadth of first-hand experience of 'budgeting in the real world' that Luisa Diogo had had in her various roles.

In her presentation, **Luisa Diogo** stated that 'the budget has two main responsibilities*: to help deliver the government's mandate and to steer long-term development. The budget is where political and social interests either converge or diverge.'* She emphasised that the budget reflected the political and social realities of a country. A country at war is likely to have a budget that looks very different from that of a country at peace, and in this way *'the budget is the mirror of the country'*. The experience of Mozambique has shown that is it important, and indeed easier, to make changes to the budget during a time of transition. In Mozambique, this was soon after the conclusion of a peace agreement, and before military interests became entrenched.

Ms Diogo then outlined the development of the budget process in Mozambique, and categorised its evolution into a number of phases. In the first phase, up to 1995 and during active hostilities, the detail of the budget was very limited, with little difference (except for inflation adjustments) between years. Most resources were channelled to military expenditures. With the cessation of fighting, the government moved the budget to focus on the two challenges of post-conflict reform – reconstruction and control of inflation.

The second phase of Mozambique's budget development marked an increased focus on social services. In this phase, health and education expenditure increased significantly. Agriculture – the sector in which the majority of poor Mozambicans work – also received an increased share of government expenditure. *'The budget in this period reflected a country at peace. Building consensus with external actors was important in the transition away from a project model of funding to a programme approach.'* Ms Diogo noted that the international community had moved quickly to provide direct budget support, indicating a great deal of confidence and faith in the improving government system. In her view, general treasury account reforms were important for improving credibility in government, although the level of international aid Mozambique received also meant it was highly dependent on external assistance.

Ms Diogo shared a number of important recommendations for managing change in the budget process in developing countries. To increase revenues in post-conflict environments, it is important to develop close relations with the private sector. She also noted that reforms had a better chance of success there was a close relationship with the president and if you kept the parliament on board, particularly when passing unpopular decisions. To do this, the ministry of finance needs to move fast, and build coalitions. This was certainly the experience of the Mozambican Ministry of Finance in moving to a single treasury account: although there was resistance from many institutions – and individuals – who were benefiting from there being many separate government accounts, by mobilising support from a number of different actors within and outside government the Ministry of Finance was able to push the reform through.
In recounting her experience, Ms Diogo highlighted the actions she had taken to develop stronger civil service capacity within the Ministry of Finance. She explained she had proactively identified and informally pushed forward the brightest and best-educated staff within her ministry to assist in her reform goals. These individuals have now reached senior positions. She said that rising stars needed to be given the platform to perform.

In terms of reform, Ms Diogo noted that visionary leadership was important. At times, she had had to resist political pressure from other parts of the executive to scale back or change her reform proposals. She recommended that these disputes be dealt with behind closed doors – not publicly, so as to maintain better long-term relationships. She noted particularly that '*reforms can be successful only if government is in the driving seat*, and that, if donors attempted to lead on PFM reforms, they might do more harm than good.

In his discussion points, **Renaud Seligmann** noted that Mozambique was a success story compared with many of its peers, and had moved rapidly up on many rankings of PFM quality. There had been notable improvements in cash management and increased transparency of tax systems, although gaps remained between budget allocations for service delivery and actual execution.

Some of the challenges facing Mozambique's budget system relate to coordinating an effective MTEF. There has been poor coordination between the planning and finance aspects of ministries; donor funds have not been incorporated into the MTEF; the executive and other branches of government have continued to enter into financing agreements outside the budget process; and fiscal constraints are exacerbated by political pressure for spending that is not reflected in the budget.

Discussion

Questions were raised regarding Mozambique's anticipated increases in revenues from the exploitation of natural resources, and the impact these would have on its PFM systems. Participants also asked whether donors really had the appetite for taking risks in PFM support, and what challenges she faced in getting donors to report aid data to the government.

Luisa Diogo responded by saying that, if the budget was indeed a mirror of the nation, more work was necessary to connect natural resource revenues with agriculture, in which the majority of the population works. Regarding donors and aid, she said increases in natural resource revenues would probably make

aid less important in the future. She noted challenges with unpredictable disbursements from donors, with money often arriving late in the financial year. However, countries need to be more innovative and imaginative in using aid, employing it as a catalyst to national development. She finished her response by saying that one of the most difficult challenges she had faced in government had been convincing external partners to share data on their aid activities.

Other participants asked whether her narrative on PFM reforms in Mozambique was a little too positive. It was noted that challenges remained in getting line ministries to engage with PFM reforms, and that there was a continuing trend for a small group of officials in the Ministry of Finance to lead reforms. They questioned how far Mozambique had really come in developing a PFM reform coordination strategy, while agreeing that donor fragmentation was still a significant challenge for the budget process. It was also asked whether *'the Ministry of Finance is simply an "island of success"'*, without wider buy-in to the PFM reform agenda.

Renaud Seligmann agreed there was often limited ownership of reform by line ministries in countries with active PFM programmes. He agreed there were indeed tendencies for ministries of finance to act in isolation from the rest of government when implementing PFM reform programmes. New programmes need to be sensitive to this issue.

Luisa Diogo said that one should not be afraid of becoming a centre, or 'island', of excellence, as this can motivate others around you to do the same. Ministries of finance will naturally be the lead institutions in any PFM reform programmes, and it is only to be expected that they will be the first to become centres of excellence in relation to these issues. She reminded the conference that PFM reforms were difficult, and that you should expect success as well as failure.

On natural resources, Ms Diogo noted that Mozambique expected to follow the Norwegian model to try and avoid the 'resource curse'. One option is to set up a sovereign wealth fund to create a culture of saving for the future. In all this, transparency is crucial for effective policy delivery – and can also be protection for government, if it has nothing to hide.

Session 3
What is a capable ministry of finance?

Chair
Nicola Smithers, Public Financial Management Cluster Leader, World Bank

Speakers
Philipp Krause, Head of Public Finance team, Overseas Development Institute,
Kenneth Mugambe, Director of Budget, Ministry of Finance, Uganda
Richard Allen, former Deputy Division Chief, International Monetary Fund

Discussant
Bjoern Dressel, Senior Lecturer, Australian National University

Presentations
Nicola Smithers introduced the session by raising the underlying methodological challenge with this kind of discussion – how do you define and measure capability? Furthermore – and yet more challengingly – even if we can answer this question convincingly, what is the value was of measuring ministry of finance capability? These questions remain important – and relatively neglected – in discussions of PFM. This is problematic, as finance ministries remain at the apex of PFM systems, and a capable ministry will be instrumental in driving better budgeting. Ultimately, knowing more about the capabilities of finance ministries may have implications for the design of reforms.

In his presentation, **Philipp Krause** (Krause 2013b) compared ministries of finance with the elephant in the metaphorical story of different individuals focusing on different parts of the creature separately, and therefore reaching different views as to what it really looked like. He suggested also that diagnostic tools such as PEFA assessments were unlikely to give us the whole picture. Ministries of finance differ from other ministries in several ways. First, they are 'control ministries', mostly with tiny budgets for their own operations but a huge interest in the budgets of all other ministries. They also often have opposite interests to their line ministry counterparts with regard to spending control. This institutionalises tension in the relationship.

Mr Krause also noted that, although we use the term 'ministries of finance', it may be more accurate to talk about 'central finance agency' functions, since in many countries similar functions (debt management, cash management) are in fact allocated to different institutions, and not always the ministry of finance. He noted that fragmentation of central finance agency functions among many actors could lead to significant problems of coordination.

Mr Krause discussed four aspects of capability that might be used as a framework for approaching this question: analytical, regulatory, coordinative and delivery. Running through all this, the role of human resource systems will also have a significant impact on capability. Different models of career progression, levels of staff retention and attrition rates and the degree of pay competitiveness will, as well as non-financial incentives, have an impact on the quality of staff available to undertake ministry of finance functions.

Richard Allen agreed that researchers tended to focus on specific features of ministries of finance, and in doing so risked missing the overall character and capability of the institution (Allen 2013). He agreed that *'measurement tools such as PEFA tend to measure the efficiency of processes, rather than the effectiveness of organisations'.*

Mr Allen conceptualised ministries of finance as systems made up of inputs, organisation (formal and informal sub-systems) and, ultimately, outputs. Assessing the capability of an organisation means relating its outputs to its inputs, taking into account the factors that make up the institution itself (formal structures, business processes, staff). He gave a definition of capabilities that focused on two key functions of ministries of finance: policymaking (which takes up the largest share of resources in developed countries); and transactional processing (which takes up the majority of resources in developing countries). Over time, more developed ministries of finance tend to 'outsource' the transactional side to line ministry finance functions or to arms'-length agencies.

The functions and size of ministries of finance vary significantly between countries, and over time. Ministries of finance evolve as a result of changes in political power, external forces (economic unions, economic crises) and changes in PFM systems, as well as pressure from the IFIs.

Mr Allen concluded that developing countries should change PFM systems on a gradual, step-by-step basis. Many ministries of finance will want to focus on strengthening the finance functions of line ministries and other agencies rather than looking at strengthening the entire institution, but this risks leaving fundamental problems in place. He stressed that there was no single model of a capable finance ministry, although certain general principles could be laid down.

In response to the question of capabilities and ministries of finance, **Kenneth Mugambe** characterised the institution as 'a master juggler' that must balance competing needs that shape overall development processes (Mugambe 2013). It must maintain a balance between technical and political imperatives, and between domestic and international stakeholders, while attending to the daily practical realities of keeping funds flowing to where they should be going.

Mr Mugambe turned to the history of the Ministry of Finance in Uganda and identified four phases in its development: independence; pre-reform; reform; and post-reform. In moving through these phases, the primary capability sought was effective macroeconomic management to deliver stability to the economy, with the Ministry of Finance spearheading the process to reform revenue and public expenditure management. These reforms have been broadly successful, and the past 25 years have recorded steady economic growth. As a result of the reforms, the Ministry of Finance has become 'the most powerful ministry' within government.

In determining what made the Ugandan Ministry of Finance capable, Mr Mugambe identified several key factors. First, the existence of a strong institutional framework and a merger with the Ministry of Planning helped improve institutional coherence. Second, the ministry experienced an increase in technical capacity as a result of the merger, which led to the creation of a 'critical mass' of professional staff; within this, particularly talented staff were picked out for development and training to become the next generation of leaders. Third, political support from the president was essential in allowing the Ministry of Finance to select and develop its own leaders. Finally, the legal framework for the ministry's work has been key in defining its PFM role.
Mr Mugambe identified a number of outstanding challenges. The National Planning Authority remained, to a degree, in competition with the Ministry of Finance, and this was raised as an example of 'clipping the wings' of the ministry.

Meanwhile, Uganda intends to raise its rate of growth and to move to faster structural transformation of the economy. This will require additional technical expertise in government to develop and implement the kind of long-term plans needed.

Mr Mugambe concluded that there was no one single blueprint and fixed definition of a capable ministry of finance. Different country realities will call for different structures. As such, any attempt at measuring capability needs to be sensitive to cross-country diversity.

In his reflections on the presentations, Bjoern Dressel challenged the view that a ministry of finance could be studied in isolation from its relationships with the ruling elite, and the underlying political economy environment. All ministries of finance are ultimately tied up with the political settlement and elite bargain that shape society, and attempting to pretend they can be treated as 'independent' bodies is simply a fiction. He also raised the point that ministries of finance are dynamic institutions. How can the importance of capability to learn, adapt and experiment be captured? In response, Philipp Krause agreed there were epistemological and even ontological challenges in studying entities named 'ministries of finance', but said that not every study needed to start from a clean slate. Positivist investigations of formal institutions have as much a place in the field as anthropological case studies; ultimately, a competition of methods would yield better and more interesting findings.

Discussion

Participants raised the question of how and when *'ministries of finance can become their own worst enemy'*, through aggregating power but being vulnerable when power shifts at the political level. **Richard Allen** agreed, and noted that capability was not simply technical, but therefore also needed to cover the ability of the ministry to perform a challenging role in dialogue with line ministries.

Questions were also raised regarding the issue of the 'Francophone vs. Anglophone' models of ministry of finance organisation, particularly in terms of the role of politically appointed advisors. Mr Allen said that political advisors should have a limited role, and that, as an example of positive reform, France was moving towards something more like the 'permanent secretary' model.

In his concluding thoughts, Philipp Krause agreed to some degree with the underlying concerns of Bjoern Dressel that political economy needed to be integrated into any analysis of capability, although he maintained that investigation of ministry of finance capability in its own right without continually relating everything to the background political settlement was worthwhile. Kenneth Mugambe noted that the emergence of significant natural resource revenues was changing the dynamics of donor-dependent countries, and the relative power of ministries of finance. The ministries will need new capabilities to deal with natural resource revenue. Bjoern Dressel emphasised that the capability of a ministry of finance would be fundamentally determined by the political coalitions and elite politics surrounding the institution. Therefore, an 'actor' perspective that focuses on the ministry of finance in isolation from its wider environment may be of limited use. All participants agreed that future research using different methodologies and assumptions would add value to debate.

Day 2: 14 November 2013

Session 4
How can reformers deliver change in the budget process?

Chair
Andrew Norton, Head of Research, Overseas Development Institute
Speakers
Tim Williamson, Country Manager South Sudan, Budget Strengthening Initiative
Matt Andrews, Associate Professor, Harvard University
Amal Larhlid, Director, Policy and Governance, PricewaterhouseCoopers
Discussant
Marco Cangiano, Assistant Director, International Monetary Fund

Presentations

Andrew Norton outlined the key questions the panellists would be dealing with: what external actors can actually do to support reforms (if anything); what are the latest theories and evidence that explain how government-led budget reforms happen; and how external frameworks supporting reform can be made more effective. He noted that externally supported PFM reforms had often been criticised for fostering 'formal' changes to laws and regulations, but not really changing behaviour and actual processes on the ground. This leads to poor outcomes, and ties up scarce government capacity.

In considering this issue, **Tim Williamson** (Williamson 2013) drew heavily on his experience of the reform process in South Sudan. He identified two key actors in the reform process: first, potential reformers, who are the middle-level managers who actually deliver reforms after higher-level champions create the space; and second, trusted advisors, who should listen to and understand the problems of the reformers and build enduring relationships with them. However, *'trust takes time to build'*. He noted that, while early reformers genuinely understand the problems facing PFM systems, they could find it difficult to negotiate the way through conflicting advice (often from different donors). Potential reformers also face pressures from politicians and external interests in an uncertain environment, as well as their own personal problems (such as pressure to provide for an extended family on a low civil service wage).

Importantly, *'problem solving and reform processes are not linear'* in terms of trajectory. Success will move forward and backward over time, and small setbacks should not be seen as total failure. Reformers, trusted advisors and external actors should work together collaboratively to break the larger issues down into a series of manageable problems. From these smaller problems, solutions can be identified that are within the capability and capacity of the ministry of finance to deliver on. This is difficult to do, and Mr Williamson noted that reforms were often not sustainable, owing to *'too much doing, and not enough capacity building'*. Successful problem solving means dealing with the real and immediate nature of the problem, not just treating it as something 'generic', where ready-made solutions can be imported.

In her presentation, **Amal Larhlid** set out experience from Tunisia and Morocco (Larhlid 2013). She noted that effective reform depended on getting the process right, and emphasised the need for effective coordination between national stakeholders. This will allow the country to get the best from external actors. However, in practice, it is very difficult to do.
In the Tunisian and Moroccan experiences, there were clear limitations on capacity to absorb support and to improve coordination between international advisors. 'International advisors invariably deal with the same small group of people in government, who can frequently become overloaded and overwhelmed by the number of visits, missions and engagements

they are expected to have'. External advisors would do well to coordinate more, focus on what the country's own priorities are and show greater consistency of policy advice. Ms Larhlid noted instances of advisors significantly changing their policy advice in a short time period, making it hard for the recipient country to engage with reform.

As a result, the 'best practices' that apply to governments – such as transparency, accountability, coordination – should also apply to international organisations working in PFM reform. This will improve the quality of the dialogue. As an example, it could mean independent peer review of development projects supported by international organisations, and a requirement for regular coordination meetings.

Matt Andrews outlined his concern regarding the tendency to give precedence to 'form over function' and the need to focus instead on functional successes (Andrews 2013). This is a challenge partly because we lack the language or metrics of functional success, whereas measuring success by referring to the existence of an institutional 'form' is relatively easy. As an example, functional PFM systems would result in reduced deviation from a planned budget; civil servants being paid on time; or better procurement. However, PFM metrics instead often measure the existence of de jure laws or processes. He also noted that, in this discussion of form over function, we should be careful, as 'we don't have many functional successes to speak of'.

Mr Andrews outlined his 'Problem-driven Iterative Adaptation' approach, which contrasts two approaches to PFM reform: the 'blueprint' approach and the 'learning' approach. The two latter approaches are not mutually exclusive, and in some circumstances can be combined. For example, a highly adaptive and iterative learning technique can be used to test an initial reform idea, but then a 'blueprint' approach can be used to take it to scale. This kind of approach is an art rather than a science. In terms of actors, he suggested this could involve relatively large groups of people, with different members undertaking different functions. Case study work has shown that the average number of people involved in a policy reform under consideration is 19; there is a clear need for leadership in a group of this size. In only 12 of the 30 cases he is reviewing is there a clear exceptional leader able to provide motivation for the rest of the team.

Outsiders can have a role to play. Notably, they can provide funds to support government efforts. They can also provide ideas (not necessarily 'the idea') to help

solve problems. They can also act as convenors and connectors, bringing together independent agents to encourage them to work together. Successful reforms will need the delivery of a hybrid of different approaches – often containing elements of best practice but merged with the local context to make them work. However, progress is not assured: 'successful reforms are the exception rather than the rule'.

In his review of the speakers' points, Marco Cangiano noted that, to truly understand a problem, actors needed to break it down into a series of manageable issues. The challenge, however, is that those who best understand the realities of problems tend to work individually, in silos. As a result, convening relevant people – those who know the problem and also the possible solution – is critical. It might happen that this step is skipped and a country relies on quick fixes, but this doesn't help solve the problem in the long term.

Countries are often over-diagnosed in terms of deficiencies, but these diagnostics have problems that are well known. Therefore, in trying to support reform, it is important to look behind the diagnostics to see if what you really want to understand is happening. This opens up reform to more difficulty, as it will involve understanding, and dealing with, the political system. Reforming PFM systems is a challenge because, often, human resource systems (particularly pay) also need to be addressed to make reforms sustainable. When reforming PFM, it is important to remember that 'nothing is technical, everything is political'.

Discussion

One participant proposed that, on the question of external actors supporting reform, the international community had made egregious mistakes in its PFM advice. There should be *'a code of conduct for PFM reform'* that sets minimum benchmarks for the behaviour of external actors, and builds in transparency, for example through peer reviews. Unfortunately, vested interests in the wider international system prevent this from happening.

Another participant echoed this point, noting that coordination was unlikely owing to inbuilt territoriality between donors. Perhaps a better way to look at the issue would be, *'what would more explicit competition among donors look like?'* It was agreed that 'behavioural' indicators (i.e., are people now acting differently as a result of a reform?) would be the ideal type, but these are difficult to use in practice. **Tim Williamson** suggested that changing success measures to be *'narratives of change'* rather than rigid indicators would enable governments and donors to operate on more of a behavioural basis. On the point about donor competition, **Matt Andrews** said that the answer was to *'empower governments to be good consumers'* rather than expecting donors to spontaneously coordinate. Others disagreed with the idea that there was really a market place for donor advice, and instead agreed that governments must indeed be empowered to demand better coordination.

Summing up the discussion, **Andy Norton** agreed that, in most cases, multiple internal and external actors were needed for successful reforms to occur. This puts a premium on coordination. Donors need to learn to let go and allow the government space to adjust and iteratively adapt. Meanwhile, countries need to be empowered to demand better advice and coordination among international organisations, and local reforms need to be able to filter advice coming from external actors. In reality, '*international organisations are unlikely to change'*. Feedback loops are weak, so translating lessons learned into changes in donor behaviour is difficult. Developing different ways of measuring reform success (e.g. narratives of change) might allow a greater chance for changing donor behaviour.

Session 5
How do budget reforms link to development outcomes?

Chair

Paolo di Renzio, Senior Research Fellow, International Budget Partnership, and Research Associate, Overseas Development Institute

Speakers

Bhanu Prasad Acharya, Hon'ble Auditor-general, Nepal

Allen Schick, Distinguished Professor, University of Maryland; and Senior Fellow, Brookings Institution

Nick Manning, Head of the Governance and Public Sector Management Practice, World Bank

Discussant

Mary Betley, Independent Consultant

Presentations

Paolo di Renzio introduced the session as a conversation about the link between PFM reforms – which the conference had already discussed at length – and the impact they actually had on development outcomes. He asked what we actually meant by outcomes, and the broader question *'what are we trying to achieve?* with regard to PFM reform. He raised the question of a link (if any) between PFM reforms and progress on the main indices of development, such as the Human Development Index. He outlined his view that there were three objectives to achieve with PFM reform: stabilisation of the economy; efficient allocation; and equitable distribution. A PFM framework needs to be able to deliver these three objectives through its various functions.

Bhanu Prasad Acharya provided an overview of Nepal's progress in PFM reform since the 1990s (Prasad Acharya 2013). He noted that progress in governance reform, including PFM, was closely linked to progress on broader political stability. Progress on development outcomes was indeed possible, he suggested, even in difficult circumstances. He specifically noted the maintenance of macroeconomic stability as one of these achievements, and Nepal's significant improvements in maternal mortality. He noted, however, that assistance from donors needed to be rooted in the country context, and that too often donors expected simply to transfer solutions that had worked elsewhere. Too much donor assistance remains off budget, with little attempt at harmonisation.

Mr Acharya turned to the issue of capacity, noting that in Nepal's PFM systems it was simply insufficient, and that, although the bureaucracy was relatively professional, it had become increasingly politicised as a result of the ongoing political disputes in the country. Bureaucrats can help in technical implementation, but political will comes from above. Reforms were introduced successfully in the 1990s, but the major issues needing reform today are strengthening of oversight agencies; a clean budget; improvement in management of capital projects; and improved coordination between central finance agencies.

In looking forward, Mr Acharya noted that challenges to PFM – and therefore to development outcomes – included continued fragmentation in Nepali politics; the need to sustain economic growth; and the need to strengthen oversight agencies. Budget policy needs to be inclusive, as Nepal is still a 'limited access order' that needs to keep key stakeholders on the inside. **Allen Schick** outlined his arguments on the links between budgeting and development outcomes (Schick 2013). Regarding connecting budgeting with results, he argued strongly that we did not need a formal budget system to drive better development outcomes, and the two issues were not necessarily related. As a result, reforms such as 'results-based budgeting' are simply disconnected from real-world experience. Such approaches '*work on the flawed assumption that good processes mean good results'*, which is rarely ever the case. He pointed to the example of fiscal rules: logically, rules constraining agencies should mean they cannot do things they otherwise would, and as a result of rules fiscal outcomes should be more positive. However, this is not the experience in many countries, and to think it would be is a prioritisation of the power of processes to deliver results. He noted the same risks with MTEFs, which apparently are active in over 100 countries.

If this is the case, then where is it best to start? Mr Schick noted that, *'experience is a better teacher than reason'*. We need to recognise that, at some point, every developed country was a developing country. Developed countries took a different path on budgetary development than the 'reason-based' approach currently being promoted. For example, 100 years ago developed countries did not have 'performance' information in their budgets. They used line item inputs. This is not the model we promote to developing countries today. Today's developed countries achieved a great deal without complex budgetary machinery – they kept balanced budgets but didn't have fiscal rules. They accomplished development results because of compliance with, and control through, a basic PFM system, not because of complicated 'performance' approaches.

What developed countries did was embed norms and habits that were eventually formalised into PFM systems. You cannot just 'transfer' these from more developed to less developed countries; they have to be developed internally by the countries themselves. So how can this be promoted? Mr Schick argued that, '*each country has its own story'*, and introduced reforms for its own reasons. Some countries have been leaders, others followers. The most compelling answer, in his view, is that once countries begin delivering broad-based economic and social development, the expectations of their populations start to escalate. Governments therefore come under popular pressure to deliver more, and respond accordingly.

Mr Schick argued that modernising PFM was not a sure route to improving development outcomes. We can have unclear PFM rules but still have good outcomes. Somewhere between procedures and results are key factors such as formal institutions, behavioural norms, the interests of power holders and informal institutions. These are the things that drive budgeting in the real world. He was clear that *'budgeting in the real world is incremental'* and the 'long war' between fundamental budget reform and incremental change has been won by the latter. Budgeting involves marginal analysis and marginal change. Reforms need to recognise this in order to make an effective link between budgets and outcomes.

In his presentation, **Nick Manning** agreed with several of the points Allen Schick made (Manning 2013). He agreed that there could be an overreliance on formal rules, with the result that public management theory and practice becomes a topic in its own right, with a risk of being divorced from the results it is supposed to deliver. He disagreed with Mr Schick in some areas, however. He noted that we were less clear today that 'basics first' was the right approach, given that some countries seem to manage quite complicated systems at relatively low levels of development. The real issue is too much focus on rationality, process and machinery, rather than on results.

Mr Manning outlined the World Bank's support for PFM, characterising it as moving through phases. In the 1960s, it was about gap filling; in the 1980s about reform content; and in the 1990s about country context. Since 2005, the approach has moved to be more adaptive and less technical, and from 2010 onwards steps have been taken to make sure context matters in designing programmes. The latest World Bank strategy starts by identifying a functional problem, and then finding solutions to it, noting that, *'you can't fix everything'*. He also noted that a review of Bank projects showed that upstream reform generally got better results. He also reported that there had been widespread improvement in recent PEFA assessments and Country Policy and Institutional Assessments (CPIAs) for many countries, but it was unclear if there was a causal relationship between this and Bank-supported reforms.

Going forward, Mr Manning said that behavioural economics was increasingly important in informing Bank practices. There were, however, incentive issues within the Bank that were preventing some positive behaviours from emerging. He said, *'there is a greater need to acknowledge failure'* and a need to develop stronger challenges to country strategies. Insights like those being discussed at the conference have changed the Bank's approach, but this hasn't always penetrated all the way down the chain.

Mary Betley reflected on the points the presenters had raised. She agreed that enabling governments to challenge donors was important, and that too many donors continued to push best practice rather than starting by asking what was realistic in a given reform context. She suggested that one point of agreement coming out of the discussion was support for a less linear approach that took into account country circumstances, that asked difficult questions and that acknowledged that one size did not fit all. However, in talking about prioritisation and choices, we need to be clear whose priorities we are discussing.

Ms Betley posed three questions for further discussion and analysis. How can a discussion on budgeting and results be nuanced when, in the real world, donors insist on rapid and visible results? What are the implications for a non-linear approach, when one size fits all is easier to administrate? Where is the pressure coming from for change in each country? Civil servants might want to provide a professional service, but also have an interest in maintaining the *status quo*. Are civil society actors, donors or 'society' in general the driver for better outcomes?

Discussion

Participants asked a number of questions about impartiality, incrementalism and transparency. It was noted that impartiality in public administration was indeed linked to better development outcomes, but using this to somehow explain PFM performance and subsequent development results was very difficult. **Nick Manning** agreed that, at a high level, there did seem to be a link between measures of bureaucratic impartiality and development outcomes, but it was hard to operationalise this at a project level.
Some participants were unconvinced by an incrementalist approach, and advocated for significant big shifts in PFM performance, noting that *'we'd move too slowly if we did only incremental shifts'*. However, the panel felt that, in reality, incrementalism in reform was how change was delivered. Indeed, **Mary Betley** noted that *'moving forward slowly is better than moving fast backwards'* and that small changes were acceptable successes too.

There was additional discussion on the balance between 'global' knowledge (from international experts) and 'local' knowledge (from in-country national staff). Some on the panel acknowledged that the balance was often too much in favour of international expertise rather than local skills – a view supported by **Bhanu Prasad Acharya**. He noted that some his best officers were Nepali staff who had been exposed to bilateral or multilateral donor working practices, and he preferred such people to international consultants, who simply stayed for a year or two and then left.

Session 6
Concluding session: what is to be done?

Chair
Edward Hedger, Head of the Centre for Aid and Public Expenditure, Overseas Development Institute

Panellists
Amatsu Kuniaki, Public Governance and Financial Management, Japan International Cooperation Agency

Nicola Smithers, Public Financial Management Cluster Leader, World Bank

Bjoern Dressel, Senior Lecturer, Australian National University

Presentations
For the final session, **Edward Hedger** convened a panel of speakers to discuss what conclusions might be drawn from the discussion over the previous two days. He asked the panellists and the participants to consider the key question – *'what will you take away from the conference?'*

Several members of the audience raised points. Some noted that, despite the implications of the discussion of the previous two days, there must be actual empirical evidence on what works in PFM reform, and we should not discuss this issue as though we simply don't know much about it. Others noted that improved budgeting was not a panacea for wider governance issues within a country, but that the conference had successfully and correctly raised the point that reforms needed to consider political and cultural constraints.

There was discussion about the importance of human resources and capability in delivering good PFM. Questioners remarked on Luisa Diogo's points about proactively identifying and nurturing talent within her ministry as a long-term form of capability building. Some participants felt the conference had not discussed the issue of government capability in sufficient depth.

Some participants were sceptical about the 'consensus' the conference had reached. They noted it was easy to say 'back to basics', and that reforms need to 'work with the grain' and 'context matters', but why are these lessons not being learned? Many PFM reform programmes seem to continue as though these points are not 'accepted wisdom', and future work should explore why this is.

Amatsu Kuniaki explained JICA's approach to PFM, and noted that JICA was in agreement with many of the conclusions of the conference. JICA supports a sequencing approach (putting the basics first), and believes this presents a good platform for building reforms. It also believes donors should be consultative and provide options for government rather than blueprints. Reform would come through continued dialogue with government – and sometimes *'the best thing a donor can do is keep quiet and let government talk'*.

In his concluding remarks, **Bjoern Dressel** stressed the importance of the reform context. He noted that we had talked a great deal about 'the reformer' as a person who would drive change, but that such people did not always exist. We need to move away from the heroic individual approach and consider entire systems at the conceptual level. Also, we have spent a lot of time talking about failure, and the drivers of failure. '*Let's take time to consider successes as well'*, as there are many examples of reforms making a difference. He asked three questions. First, are we too comfortable with our consensus, and are we taking enough account of the (unanswered) question as to how we build institutions for the long-term? Second, a clear paradigm for learning and development underlies the discourse on PFM, and it assumes relative stability and a good level of cultural understanding between donors and government. Is this a correct starting point? And third, we need to accept the messy and contested nature of reform, and acknowledge the complexities within the demand side from government. He noted, for example, that the constituency in the Philippines that might demand better PFM from government was the urban middle class. However, this group was not arguing for better PFM out of a desire for better systems *per se*, or to support pro-poor growth, but rather to secure better advantages and services from the state for themselves. Therefore, drivers for reform are not necessarily what we would always want them to be.

Nicola Smithers highlighted that her key point emerging from the discussion was that natural resource wealth was changing the nature of government–donor relations, and giving more power to ministries of finance. She agreed that we had not talked enough about the issue of capability, which would underpin any successful reform. She noted that PEFA revisions were ongoing, and that, over time, the assessment system's popularity had meant *'PEFA has a life of its own*'. With the current reforms, the aim is to move away from a 'tick box' exercise on what form PFM takes and instead to capture '*function rather than form'* in measuring the strength of PFM systems – although this was proving hard to do.

Edward Hedger thanked all speakers, chairs, discussants and participants for their engagement in the conference.

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Annex A: Agenda

Video recordings of each speaker and discussant can be viewed online at www.odi.org.uk/events/3608-cape-conference-2013-budget-pfm.

Day 1 (13 November)
8:30-9:15 Registration and coffee
9:15-9:20 Welcome
Edward Hedger (Head of CAPE, ODI)
9:20-10:20 Keynote session
Speaker: Antoinette Sayeh
(Director, Africa Department, IMF, and former Minister of Finance, Liberia)
Chair: Kevin Watkins (Director, ODI)
10:20-10:30 Introduction to the conference
Philipp Krause (Public Finance Team Leader, ODI)
10:30-12:30 The practice of budgeting – what drives the form and functionality of budget systems?
Speakers: Neil Cole (Executive Secretary, CABRI)
Carlos Scartascini (Principal Research Economist, IADB), Jana Repansek (Deputy Director, Center for Excellence in Finance)
Discussant: Joachim Wehner (Senior Lecturer, LSE)
Chair: Marta Foresti (Head of Politics and Governance, ODI)
12:30-13:30 Lunch
13:30-15:00 A case in point? The experience of Mozambique
Speaker: Luisa Diogo (former Prime Minister and Minister of Finance, Mozambique)
Discussant: Renaud Seligmann (Sector Manager, Financial Management West & Central Africa, World Bank)
Chair: Andrew Lawson (Director, Fiscus Limited)
15:00-15:30 Coffee
15:30-17:30 What is a 'capable' finance ministry?
Speakers: Kenneth Mugambe (Ag. Director Budget, Ministry of Finance, Planning and Economic Development, Uganda), Richard Allen (former Deputy Division Chief, IMF), Philipp Krause – Public Finance Team Leader, ODI)
Discussant: Bjoern Dressel (Senior Lecturer, Australian National University)
Chair: Nicola Smithers (Public Financial Management Cluster Leader, World Bank)

Day 2 (14 November)
8:45-9:20 Registration and coffee
9:20-9:30 Summary of Day 1 and introduction
Philipp Krause (Public Finance Team Leader, ODI)
9:30-12:00 How can reformers deliver change in the budget process?
Speakers: Matt Andrews (Associate Professor, Harvard Kennedy School), Tim Williamson (Country Manager South Sudan, BSI, ODI)
Amal Larhlid (Director, Policy and Governance, PwC)
Discussant: Marco Cangiano (Assistant Director, IMF)
Chair: Andrew Norton (Director of Research, ODI)
12:00-13:30 Lunch
13:30-16:00 How do budget reforms link to development outcomes?
Speakers: Bhanu Prasad Acharya (Hon'ble Auditor-general, Nepal)
Allen Schick (Professor, University of Maryland; and Non-resident Senior Fellow, Brookings Institution)
Nick Manning (Head, Governance and Public Sector Management Practice, World Bank)
Discussant: Mary Betley (Independent Consultant)
Chair: Paolo de Renzio (Senior Research Fellow, International Budget Partnership; and Research Associate, ODI)
16:00-16:30 Coffee
16:30-17:30 Concluding session: what is to be done?
Speakers: Amatsu Kuniaki (JICA), Nicola Smithers (Public Financial Management Cluster Leader, World Bank), Bjoern Dressel (Senior Lecturer, Australian National University)
Chair: Edward Hedger (Head of CAPE, ODI)

Annex B: Participants

Acácio cate	Attaché for the Republic of Mozambique
Adrian Hewitt	Overseas Development Institute
Ahmed Ali	Overseas Development Institute
Alan Edwards	Chartered Institute of Public Finance and Accountancy
Alastair McKechnie	Overseas Development Institute
Ali Alshamahi	Ministry of Finance, Yemen
Allen Schick	University of Maryland
Allister Moon	Independent
Amal Larhlid	PricewaterhouseCoopers
Anand Rajaram	World Bank
Andrew Bird	Independent
Andrew Lawson	Fiscus Ltd
Andrew Norton	Overseas Development Institute
Andry Raharinomena	Independent
Ann Batholomew	Independent
Antoinette Monsio Sayeh	International Monetary Fund
Aurela Velo	Ministry of Finance, Albania
Bigyan Pradhan	World Bank
Bjoern Dressel	Australian National University
Brian Ames Overseas	Development Institute
Bryn Welham	Overseas Development Institute
Carlos Scartascini	Inter-American Development Bank
Catherine Garson	Editor
Chola Chabala	Ministry of Finance, Zambia
Chris Wales	PricewaterhouseCoopers
Christophe Nsengiyaremye	Ministry of Finance, Rwanda
Claire Leigh	Overseas Development Institute
Dana Wilkins	Global Witness
David Hoole	Oxford Policy Management
David Hall-Matthews	Publish What You Fund
Deborah McGurk	Department for International Development
Dinah McLeod	Independent
Edward Hedger	Overseas Development Institute
Elda Spasse	Ministry of Finance, Albania
Elena Mondo	International Budget Partnership
Elizabeth Barnes	Overseas Development Institute
Els Hinderdael-Forger	World Bank
Emmanuel Ssewankambo	Overseas Development Institute
Gary Bandy	Independent
Giulia Mascagni	University of Sussex
Greg Smith	Africa PREM, World Bank
Guto Ifan	Development Initiatives
Heidi Tavakoli	Bill and Melinda Gates Foundation
Hicham Fadi	Chef de service à l'unité centrale de recouvrement
Hirotaka Nakamura	Japan International Cooperation Agency
Hon'ble Bhanu Prasad Acharya	Auditor-general, Nepal
Iain Nettleton	BDO
Ian Lienert	Independent
Imran Aziz	Overseas Development Institute
Ivor Beazley	World Bank
Jana Repanšek	Center of Excellence
Jenny Lah	Bill and Melinda Gates Foundation
Jeremy Guthrie	Department for International Development
Jesper Steffensen	DEGE Consult
Jeremy Clarke	Overseas Development Institute
Jo Kemp	Crown Agents
Joachim Wehner	London School of Economics
John Burton	KPMG
John Wiggins	Independent
Julia Tobias	Overseas Development Institute
Karin Metell Cueva	SIPU International
Karl Livingstone	Independent
Kenneth Mugambe	Ministry of Finance, Planning and Economic Development, Uganda
Kevin Watkins	Overseas Development Institute
Kojo Oduro	Crown Agents
Kuniaki Amatsu	Japan International Cooperation Agency
Mr. Lahsen Sbai El Idrissi	Trésorier ministériel auprès du Ministère de la justice
Leslie Cole	BDO
Luisa Dias Diogo	Former Prime Minister of Mozambique
Maia King	Independent
Mailan Chiche	Department for International Development
Marco Cangiano	International Monetary Fund
Marcus Manuel	Overseas Development Institute
Mario Abela	International Federation of Accountants
Mark Bohlund	HIS
Mark Brough	Publish What You Fund
Marta Foresti	Overseas Development Institute
Mary Betley	Independent
Matt Andrews	Harvard Kennedy School

Matthew Smith	KPMG
Melissa Nobile	BDO
Mikaela Gavas	Overseas Development Institute
Mohamed Masmoudi	Trésorier préfectoral de Rabat
Natasha Sharma	World Bank
Neil Bird	Overseas Development Institute
Neil Cole	Collaborative African Budget Reform Initiative
Nick Manning	World Bank
Nick Travis	Oxford Policy Management
Nicola Smithers	World Bank
Nicole Valentinuzzi	Publish What You Fund
Pallu Modi	Crown Agents
Panajot Gjiknuri	Ministry of Finance, Albania
Paolo de Renzio	International Budget Partnership
Philipp Krause	Overseas Development Institute
Rajesh Kishan	Department for International Development
Raul Aldaz Paul	Independent
Rebecca Simson	Independent
Renaud Seligmann	World Bank
Richard Allen	International Monetary Fund
Richard Williams	BDO
Rob Tew	Development Initiatives
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Simon Gill Overseas	Development Institute
Simon Groom	Independent
Stephanie Allen	Mokoro
Stephanie Sweet	Independent
Stephen Akroyd	Oxford Policy Management
Tanneh Brunson	Ministry of Finance, Liberia
Theo Thomas	World Bank
Tim Strawson	Development Initiatives
Tim Williamson	Overseas Development Institute
Tove Strauss	Overseas Development Institute
Verena Fritz	World Bank
Vivienne Russell	Public Finance
Yousef Al Radaei	Ministry of Finance, Yemen
Zainab Kizilbash Agha	Department for Communities and Local Government

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